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ABSTRACT

Certain aspects of the Guaranteed Student Loan, National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grants programs are reviewed and evaluated. The rules and regulations OE provides to educational and lending institutions for administering the federally sponsored student financial aid programs are found to be consistent with the provisions of the authorizing legislation. Generally, financial aid offices did not consider race, sex, athletic ability, academic record, and alumni relationship of student applicants. However, some financial aid officers were influenced by one or more variables in addition to need, such as age, class in school, and place of residence. The present process for allocating loan funds to educational institutions is apparently not equitable. Some institutions receive all or more than the total funds they need to meet the needs of their students while others receive substantially less than their actual need. Regional review panels do not have enough time or data to make appropriate review of institutional applications. Recommendations to HEW are offered. (LBH)

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(1)

The Honorable James G. O'Hara, Chairman
Special Subcommittee on Education
Committee on Education and Labor
House of Representatives

Dear Mr. Chairman:

In response to your May 21 and July 12, 1973, requests, we reviewed certain aspects of the Guaranteed Student Loan, National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grants programs administered by the Office of Education, Department of Health, Education, and Welfare.

As the Special Subcommittee requested, we did not obtain written comments on this report from the Department. However, we did discuss the matters presented in this report with agency officials.

Release of the report will be made only upon your agreement or your public announcement of its contents. In this connection, we want to direct your attention to the fact that this report contains recommendations to the Secretary of Health, Education, and Welfare, which are set forth on pages 24 and 34. As you know, section 235 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report, and the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. Your release of this report will enable us to send it to the Secretary and the four Committees to set in motion the requirements of section 236.

Sincerely yours,

Elmer B. Staats
Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
OE	Office of Education

COMPTROLLER GENERAL'S REPORT TO THE SPECIAL SUBCOMMITTEE ON EDUCATION, COMMITTEE ON EDUCATION AND LABOR HOUSE OF REPRESENTATIVES

ADMINISTRATION OF THE OFFICE OF EDUCATION'S STUDENT FINANCIAL AID PROGRAMS
Office of Education
Department of Health, Education, and Welfare B-164031(1)

D I G E S T

WHY THE REVIEW WAS MADE

At the request of the Chairman, GAO reviewed aspects of the administration of the Office of Education's (OE) student financial assistance programs--the National Direct Student Loan, College Work-Study, Supplemental Educational Opportunity Grants, and Guaranteed Student Loan programs. The guaranteed loan program is administered through participating lending institutions; the others are administered through institutions of higher education.

The primary objective of the review was to determine if OE's regulations were consistent with the authorizing legislation and whether criteria other than individual student need were being used in awarding student financial aid. GAO made the review at 32 educational institutions and 35 lending institutions throughout the Nation and at 7 Department of Health, Education, and Welfare (HEW) regional offices.

FINDINGS AND CONCLUSIONS

OE regulations

The rules and regulations OE provides to educational and lending institutions for administering the federally sponsored student financial aid programs are consistent with the provisions of the authorizing legislation. (See p. 11.)

Award of aid to students by educational institutions

Generally the educational institutions we visited were administering the programs consistent with OE program regulations and guidelines. The primary criterion financial aid officers considered in awarding assistance was individual need. However, aid was occasionally awarded on the basis of other criteria. (See p. 12.)

For example, a few financial aid officers gave preference to minority students or females and some were apparently influenced by such factors as curriculum, marital status, and age. (See pp. 12, 19, and 20.)

At 26 institutions participating in intercollegiate athletics 2 financial aid officers may have been influenced in awarding aid because the applicants were athletes, although both officers told GAO that they do not consciously give student athletes preference in awarding aid. (See p. 16.)

Two financial aid officers consider academic ability in awarding student aid. One awarded aid to new applicants on the basis of academic ability classifications assigned by the institution's admissions office; the other determined the type of aid package by using academic ability as the primary criterion. (See p. 14.)

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Financial aid officers generally told GAO that the computed need determinations for students having certain characteristics have to be adjusted because the determinations do not adequately consider these characteristics. (See p. 20.)

Activities of lending institutions

GAO examined 35 lending institutions' policies and procedures for the Guaranteed Student Loan program and found that most had policies which were more restrictive than the authorizing legislation, such as

--requiring borrowers to be State residents,

--setting maximum loan amounts and total student indebtedness limitations that are less than amounts permitted by law, and

--requiring borrowers and/or their parents to have customer relationships. (See p. 22.)

A smaller number of lenders

--did not loan to freshmen or sophomores,

--required borrowers to be full-time students,

--did not loan to applicants over 26 years of age, and

--required the loan note to be co-signed. (See p. 23.)

Amounts of guaranteed loans awarded by the lenders were (1) the student's need as determined by the educational institution, (2) the amount requested by the student borrower, or (3) program or institutional limitations, whichever was the least. (See p. 24.)

Although GAO found no restrictive policies that excluded students because of race or sex, the restrictive policies of lending institutions in awarding guaranteed loans could hinder some students' participation in the guaranteed loan program. Lender participation in the guaranteed loan program is voluntary, however, and OE believes that any legislative changes that would address these restrictions would reduce lender participation in the program. (See p. 24.)

Allocation of National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grant funds to educational institutions

A statistical analysis of recommendations made on institutional applications at seven HEW regional offices indicated that the amounts recommended by regional review panels apparently were not influenced by the racial composition of the institutions' student bodies or by the types of institutions submitting applications. (See p. 26.)

Applications submitted to HEW by educational institutions often do not reflect the actual student need environments of the requesting institutions. HEW regional review panels do not always identify and make appropriate adjustments to these applications. (See p. 26.)

Of the 32 educational institutions GAO visited, only 8 had rejected applications on hand from eligible students. Most of the remaining institutions were able to meet the needs of all eligible students who

applied or did not accept applications once all funds had been exhausted.

Some institutions inflated the estimated amounts needed in their applications and were therefore able to meet all or most of their students' needs, even though the amounts received were less than the amounts requested in their applications. (See p. 29.)

GAO contacted an additional 175 educational institutions to determine the impact of educational institutions' inflating their applications. Eighty-seven told GAO they had rejected eligible applications on hand, 38 said that they did not have rejected applications available but claimed that their institutions had unmet needs, and 50 said that their institutions had no unmet needs. (See p. 32.)

RECOMMENDATIONS

The Secretary, HEW, should direct OE to develop guidelines and instructions for financial aid officers that will preclude individual student characteristics or other variables from affecting the determination of loan recommendations and the award of student financial aid other than on the basis of individual student need. (See p. 24.)

The Secretary, HEW, should direct OE to study alternatives for improving the process through which educational institutions receive allocations of funds under the College Work-Study, National Direct Student Loan, and Supplemental Educational Opportunity Grant programs. Alternatives to be studied should include:

1. Requiring educational institution requests to be based on the students' actual need; that is, the amount of Federal aid awarded in the previous year, the amount of documented unmet need (actual rejected applications from eligible students) in the previous year, plus an anticipated rate of growth in the number of students eligible and applying for student financial assistance.

2. Eliminating the functions of the regional review panels and requiring educational institutions to submit their applications to an appropriate State education agency for review and allocation of appropriated funds. OE would periodically monitor the State agency practices to insure that funds were being allocated equitably to all State educational institutions. (See p. 34.)

AGENCY COMMENTS

At the Special Subcommittee's request, GAO did not obtain the written comments of HEW on the contents of this report. GAO discussed the matters in the report with agency officials and considered their views in preparing the report.

MATTER FOR CONSIDERATION BY THE SPECIAL SUBCOMMITTEE

The Special Subcommittee might wish to evaluate the appropriateness of State guaranty agencies and lending institutions' using their own criteria in deciding who receives a Guaranteed Student Loan, especially those excluding students because of age or class in school. (See p. 25.)

CHAPTER 1

INTRODUCTION

In response to May 21 and July 12, 1973, requests from the Chairman, Special Subcommittee on Education, House Committee on Education and Labor, we reviewed certain aspects of the National Direct Student Loan, College Work-Study, Supplemental Educational Opportunity Grants, and Guaranteed Student Loan programs. These student financial aid programs are administered by the Office of Education (OE), Department of Health, Education, and Welfare (HEW).

The Chairman specifically requested that we determine if (1) any criterion other than demonstrated need has been used in awarding student financial assistance, (2) OE has been guided by criteria other than those set forth in the legislation in allocating funds to educational institutions, and (3) OE has administered the program consistent with legislative intent.

Any institution of higher education in the States, Puerto Rico, the District of Columbia, Guam, American Samoa, the Virgin Islands, or the Pacific Islands Trust Territory is eligible to participate in the National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grants programs, if it meets the following requirements.

1. Admits as students only those who have graduated from a secondary school or its equivalent.

2. Is legally authorized within a State to provide a program of education beyond the secondary level.

3. Provides an educational program for which it awards a bachelor's degree or provides not less than a 2-year program which is acceptable for full credit toward such a degree.

4. Is a public or nonprofit institution.

5. Is either making suitable efforts to meet accreditation standards or is accredited by a nationally recognized accrediting agency approved by the Commissioner of Education.

The Education Amendments of 1972, Public Law 92-318, made proprietary educational institutions eligible to participate in these student assistance programs if they provide not less than a 6-month program of training to prepare students for gainful employment in a recognized occupation; have been in existence for at least 2 years; and meet requirements 1, 2, and 5 above.

The student eligibility requirements vary among the four programs. All of the programs, however, require that, to be eligible, the student must (1) be a U.S. citizen or national or an alien who intends to become a permanent U.S. resident, (2) be enrolled or accepted for enrollment at an eligible postsecondary institution, (3) be in good academic standing, (4) carry at least one-half the normal full-time workload as determined by the institution, and (5) be in need of financial assistance to pursue his study during the period for which the application is made.

The National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grants programs are administered by eligible postsecondary education institution under OE guidelines. The Guaranteed Student Loan program is operated by lending institutions under the guidance of OE, State, and private nonprofit guaranty agencies. A brief discussion of each financial aid program follows.

National Direct Student Loan program

The oldest of the financial aid programs is the National Direct Student Loan program, which was known as the National Defense Student Loan program before the Education Amendments of 1972. The program was authorized by title II of the National Defense Education Act of 1958, as amended (20 U.S.C. 401), and provided for establishing student loan funds at institutions of higher education to make low-interest, long-term loans to qualified students needing financial assistance to pursue a course of study.

Under this new program, OE provides institutions of higher education with funds to make loans at 3-percent simple interest to students who have shown a need for such aid. OE provides 90 percent of the loan funds, while the institution provides the remaining 10 percent. A student who applies for a loan under the program must submit complete

data on his family and personal resources. The difference between his total estimated resources and his total estimated college expenses indicates the approximate amount of financial assistance he needs for the academic year.

The total loans made to an undergraduate student may not exceed $2,500 for the first 2 years, and the cumulative total may not exceed $5,000 for a bachelor's degree. The cumulative total for graduate or professional students may not exceed $10,000.

College Work-Study program

The College Work-Study program was originally authorized by the Economic Opportunity Act of 1964 but was later incorporated into section 441 of the Higher Education Act of 1965, as amended (42 U.S.C. 2751). The program was authorized to stimulate and promote the part-time employment of students who need funds to continue attending eligible postsecondary educational institutions. Federal funds provided to participating institutions generally cover up to 80 percent of a student's wages; the balance is paid by the student's employer. Employment may be either on or off campus.

The basic requirement for a student's participation in the College Work-Study program is demonstrated financial need. However, a preference is given to those students with the greatest financial need. An institution must identify and offer employment opportunities first to a student from a low-income family which, for the purposes of this program, is considered to be a family whose combined annual income is $3,200 or less.

After all students from low-income families have been placed, employment may be offered to other needy applicants. This procedure is to insure that students from low-income families receive preference if there are insufficient funds to employ all the eligible students.

Under the College Work-Study program, a student's earnings may not exceed his financial needs. Students must be paid at the prevailing minimum wage rate. However, the wage rate for any particular student depends on the particular set of skills needed to perform the job in which he is assigned and the prevailing wage rate in the local area at which persons with those skills are paid for doing the same

or similar jobs. Originally a College Work-Study student could not average more than 15 hours of work a week in any academic term. However, the Educational Amendments of 1972 eliminated this limitation.

Educational Opportunity Grants

The Educational Opportunity Grants program, authorized by section 401 of the Higher Education Act of 1965, as amended (20 U.S.C. 1061), was to provide grants to students of exceptional financial need who would otherwise be unable to enter or remain in an institution of higher education. Educational Opportunity Grants were limited to students whose family income did not exceed $9,000 and whose parental contribution did not exceed $625.

The Educational Opportunity Grant program became the Supplemental Educational Opportunity Grants program under the Education Amendments of 1972. It supplements the Basic Opportunity Grants program which authorizes all eligible students basic grants of $1,400 a year, less their families' expected contributions. These grants, however, cannot exceed one-half of the total actual cost of attendance at the institution.

Supplemental grants are intended to assist students who (1) receive basic grants but who also require additional financial assistance and (2) don't qualify for basic grants but who still need financial aid. The previous grant limitations on family income and parental contribution are no longer in effect. However, institutions are expected to award supplemental grants to those students most in need of financial support and only to those students who could not reasonably be expected to enroll in postsecondary education without the grant.

Supplemental grants may range from $200 to $1,500 each academic year, depending upon assessment of student need, but in no case may a grant exceed more than one-half the student's total financial aid. Other sources may include Federal financial aid or scholarships from State agencies, private organizations, or private institutions. Thus, College Work-Study employment and National Direct Student Loan funds can be considered as matching aid for Supplemental Educational Opportunity Grants.

Guaranteed Student Loan program

The Guaranteed Student Loan program is authorized by section 421 of the Higher Education Act of 1965 (20 U.S.C. 1071). The program's major objective is to provide funds to eligible students who wish to borrow money to finance a portion of the cost of their education.

Under the program, students obtain long-term loans directly from banks or certain other participating lenders. Guaranteed student loans are insured by either the Federal Government or a State or private nonprofit guaranty agency. A student is required to repay the loan plus interest over a maximum period of 10 years, excluding any periods of deferment. The Federal Government bears all losses for defaulted federally guaranteed loans and 80 percent of the losses for defaulted State or privately guaranteed loans.

The Federal Government pays the interest on loans qualifying for the interest subsidy benefit (1) while the student is in school, (2) during a 9- to 12-month grace period, and (3) during other authorized deferments for military service, the Peace Corps, or Vista. The current interest rate on guaranteed loans is 7 percent. To insure an equitable yield to the lender, a special quarterly allowance, not to exceed 3 percent per annum, is provided to the lender. The special allowance--currently 2-1/2 percent--applies to all loans made since August 1969.

The Education Amendments of 1972 increased (1) the maximum annual loan amount from $1,500 to $2,500 and (2) the aggregate amount that can be outstanding for graduate and professional students from $7,500 to $10,000. The $7,500 limitation remained unchanged for undergraduate and vocational students.

Student eligibility requirements were also affected. Previously, the only requirement for receiving the Federal interest subsidy benefits on a student loan was an adjusted family income of less than $15,000. There was no needs test requirement. Effective March 1973, for a student to qualify for the interest subsidy, the educational institution at which the student is enrolled must provide the lender with a statement recommending the amount of the loan that the student

needs to meet the cost of his education after subtracting expected family contributions and other resources or aid available to him.

The needs test requirement applies to all students desiring interest subsidy benefits, regardless of whether their adjusted family incomes are more or less than $15,000. Lenders may exceed the institution's recommendation as to the amount of the loan as long as the basis for that decision is documented and kept in the lender's records. The needs test requirement does not apply to students not desiring the Federal interest subsidy benefits.

The Guaranteed Student Loan program is the single largest federally sponsored program available to students. About 8,200 educational institutions and 19,000 lenders are eligible to participate in the program. Since the program's inception in 1965, over 6.5 million students have received loans totaling over $6.4 billion.

CHAPTER 2

IMPACT OF OFFICE OF EDUCATION REGULATIONS IN THE AWARD OF STUDENT FINANCIAL ASSISTANCE

CONSISTENCY OF OE REGULATIONS WITH AUTHORIZING LEGISLATION

We reviewed the OE rules and regulations provided to educational and lending institutions for administering the National Direct Student Loan, College Work-Study, Supplemental Educational Opportunity Grants, and Guaranteed Student Loan programs to determine if they were consistent with the provisions of the authorizing legislation approved by the Congress. Our review focused on the criteria, especially those relating to financial need, that are prescribed and used for distributing student assistance. The rules and regulations are promulgated in title 45 of the Code of Federal Regulations. OE manuals, which reflect the rules and regulations, are used as guides by the participating institutions.

We believe that the rules and regulations provided to educational and lending institutions for administering these programs are consistent with the provisions of the authorizing legislation and do reflect the intent of the Congress.

ACTIVITIES OF EDUCATIONAL INSTITUTIONS

We examined the practices and procedures followed by financial aid officers in awarding student aid and in recommending the amount of student need to lenders. We applied certain statistical tests and judgmental sampling techniques to determine whether characteristics in addition to a student's financial need--specifically, race, sex, academic or athletic ability, or relation to an alumnus--influenced the financial aid officers' determination of the students who were to receive aid, the amount of aid, and the amount of need for students applying for Guaranteed Student Loans. Our use of statistical tests was precluded or limited at some institutions, because data on these student characteristics was not always available.

At the 32 educational institutions we visited, financial aid officers review student financial aid applications to insure that applicants meet the eligibility criteria for participation in the federally sponsored aid programs. These officers generally awarded Federal student aid and established the amount of student need for guaranteed student loans consistent with the law and existing rules and regulations. Although the primary criterion they considered was the student's need, some financial aid officers considered criteria such as race, academic ability, sex, participation in athletics, and other variables in addition to individual need.

To determine if financial aid officers were awarding student aid using criteria other than individual student need, we attempted to compare student characteristics of recipients of College Work-Study, National Direct Student Loan, and Supplemental Educational Opportunity Grants funds to characteristics of eligible rejected students. However, only 7 of the 32 educational institutions had files available on eligible students who were not awarded aid because of a lack of funds. One institution had such files but they were not readily available. Most of the educational institutions we visited did not have rejected applications because they said they were able to meet the needs of all students who applied or did not accept applications once all funds had been exhausted.

Race

Guaranteed Student Loan program

At 15 of the 16 institutions where data was available, there were no indications that students' race influenced financial aid officers' determinations of need. At the other institution, the financial aid officer gave nonminority students larger adjusted need recommendations in relation to initial need determinations than minority students.

He advised us that the reason for this was that minority students' initial need determinations are high because their parents frequently cannot contribute much of their limited resources toward college costs. Nonminority students' initial need determinations are generally lower because their parents are expected to contribute more from

their resources toward college costs. If the parents of nonminority students cannot contribute the required resources, the adjustments made by the financial aid officer result in a greater percent change in the initial need determinations.

Supplemental Educational Opportunity Grant, College Work-Study, and National Direct Student Loan programs

Our comparison of student characteristics at four of seven educational institutions where racial data was available regarding the awarding of aid under these programs indicated that minority students were more likely to receive aid than other students at three of these institutions.

The financial aid officers at two of these institutions told us that their institutions had programs to recruit low-income, minority students and that students recruited under these programs were given preference in awarding student aid. The financial aid officer at the third institution said that generally minorities are more needy and should receive preference in awarding financial aid.

Sex

Guaranteed Student Loan program

At 1 of 28 institutions where data was available, there were proportionately more female applicants than male applicants having larger adjusted need recommendations in relation to initial need determinations. The financial aid officer agreed with our analysis but stated that the dependency status of the student, rather than the student's sex, determined the upward adjustments. He stated that the initial need determination for dependent students is unrealistic due to the high expected parental contribution and that female applicants at this school are more likely to be dependent than male applicants. Therefore, these adjustments to reflect dependency affect females more than males.

Supplemental Educational Opportunity Grant, College Work-Study, and National Direct Student Loan programs

At one of the seven institutions where we were able to compare characteristics of aid recipients with characteristics of eligible rejected aid applicants under these programs, our analysis indicated that females were being given preference in awarding aid.

The financial aid officer at this institution told us that he does not consciously give preference to females. The financial aid officer speculated that, because female students generally have fewer options available to them to finance their education, they tend to submit early applications and follow up on their applications more often than do eligible male applicants.

Academic ability

Guaranteed Student Loan program

At 22 educational institutions where sufficient data was available, there were no indications that financial aid officers were influenced by a student's academic record in recommending amounts to be loaned by lending institutions.

Supplemental Educational Opportunity Grant, College Work-Study, and National Direct Student Loan programs

Our analysis at two educational institutions where sufficient data was available did not indicate that their financial aid officers considered a student's academic ability in determining which students were to receive aid.

However, financial aid officers at two other educational institutions we visited consider individual student academic ability in making student aid decisions. At one of these educational institutions, after awards were made to students who had previously been aid recipients, new upperclass and freshmen applicants were considered for the remaining funds. These aid awards were based on academic ability classifications assigned by the institution's admissions office. Those students determined to have superior

academic potential and other personal characteristics were awarded financial aid first and so on until all funds were exhausted. Although the financial aid officer determined that all students receiving aid were eligible, he did not consider individual need in deciding which students would receive aid awards.

Since academic ability is the primary criteria this financial aid officer uses in awarding student aid for the first time, only those students having superior academic ability receive financial aid at that institution. Once the student receives aid, he is given preference over other students in subsequent years as long as he demonstrates need.

The financial aid officer at the other educational institution determined the type of aid students received, using academic ability as the primary criterion. For example, students determined to have superior academic ability were awarded 75 percent scholarship/grant aid and 25 percent loan/work-study assistance. Students having good academic ability received an equal proportion of scholarship/grant and loan/work-study assistance. Students determined to have less academic ability received 25 percent scholarship/grant aid and 75 percent loan/work-study assistance.

Athletic participation

Guaranteed Student Loan program

At 25 of the 26 institutions having intercollegiate athletic programs, there were no indications that students' athletic ability influenced financial aid officers' determinations of need under the Guaranteed Student Loan program. At 14 of the institutions, few or no athletes participated in the guaranteed loan program; at 11 institutions, the financial aid officers' need computations were consistent with those computed for nonathletes who applied for guaranteed loans.

At the remaining institution we noted that 15 percent of all student athletes applied for guaranteed loans but that only 4 percent of the entire student body applied. Also, the average amounts recommended by the financial aid officer for athletes were 30 percent greater than those recommended for nonathletes. The financial aid officer at this

institution advised us that he was not aware of the greater participation of athletes in the program and his only explanation was that perhaps team coaches were directing athletes to his office. He stated that no conscious preference is given to athletes over nonathletes when computing a student's need for a loan.

Supplemental Educational Opportunity Grant, College Work-Study, and National Direct Student Loan programs

At 24 of the 26 educational institutions, student athletes were not given preference in these programs.

Our analysis of data at the two remaining institutions indicated that the financial aid officers may have been influenced in awarding aid to student athletes. At one institution we noted that 11 of 18 basketball players received Federal aid. Ten of the 11 students received College Work-Study awards. The financial aid officer at this institution advised us that athletes are considered for financial aid on an equal basis with all student applicants. He told us that he awards College Work-Study funds to students with the most need and that most of the 10 basketball players noted above were minority students who had greater need than other student applicants.

We found, however, that 12 students of a sample of 150 aid recipients who did not receive College Work-Study awards had greater individual need than the average need of the 10 basketball players. Also, 30 of the 150 had a greater individual need than at least 1 of the basketball players.

At the other institution, 90 percent of all student athletes who applied for aid under these programs received awards but only 70 percent of the total student body that applied received aid. Also, the amount of aid awards to athletes averaged about 84 percent of their need but awards to nonathletes averaged only 64 percent of their needs. The financial aid officer told us that he does not consciously give preference to athletes. He said athletes are generally made more aware of financial aid opportunities by athletic coaches and peers which may account for the high percentage of athletes receiving aid.

Relatives of alumni

Guaranteed Student Loan program

Financial aid records generally do not include data on whether student aid applicants are relatives of alumni. The absence of such data would seem to indicate that this characteristic does not influence the activities of financial aid officers. We were able to obtain data on alumni relationship from such sources as the Registrar's Office, the Admissions Office, and the Alumni Office at 11 educational institutions. At two of these institutions alumni data was available only for freshmen and transfer students. The number of guaranteed loan applications processed for relatives of alumni at 8 institutions was insignificant (less than 15) thus limiting the potential for financial aid officers to influence the amount of the need computation. Our analysis at the remaining three institutions where a greater number of relatives of alumni participated in the guaranteed loan program indicated that the need determination was consistent with that used for other students, regardless of alumni relationship.

Supplemental Educational Opportunity Grant, College Work-Study, and National Direct Student Loan programs

We were able to compare lists of relatives of alumni in attendance with students receiving awards under these programs at only eight institutions we visited. At six of these, less than 20 percent of the relatives of alumni received aid awards. At the other two institutions, 75 and 29 percent did receive aid awards. These high percentages of relatives of alumni receiving aid were generally consistent with the percentage of all students receiving awards.

We reviewed the pertinent student files at all eight institutions. There were no indications that the computation of need or the decision to award aid were influenced by the alumni relationship of student applicants.

Other variables

Several other variables appeared to be associated with the amount of need recommended by financial aid officers for guaranteed student loans and the decision as to whether students are awarded assistance under the National Direct Student

Loan, College Work-Study, and Supplemental Educational Opportunity Grants programs.

Guaranteed Student Loan Program

The variables that appeared to be associated with need recommendations made by financial aid officers for students who applied for guaranteed student loans are described on the following chart.

Variable	Number of institutions	Comments
Date of application	2	At one school, early applicants were strongly associated with larger need recommendations in relation to initial need determinations while at the other school late applicants were strongly associated with larger need recommendations in relation to initial need determinations.
Residence (in or out of State)	3	At two schools, in-State residents were strongly associated with larger need recommendations in relation to initial need determinations, while at the other, out-of-State residents were strongly associated with larger need recommendations in relation to initial need determinations.
Residence (on or off campus)	2	At one school, on-campus students were strongly associated with larger need recommendations in relation to initial need determinations, while at the other, students living with parents were strongly associated with larger need recommendations in relation to initial need determinations.
Age	3	At two schools, older students were strongly associated with larger need recommendations in relation to initial need determinations, while at the remaining school, younger students were strongly associated with larger need recommendations in relation to initial need determinations.
Self-supporting or dependent	3	At two schools, dependent students were strongly associated with larger need recommendations in relation to initial need determinations, while at the remaining school, independent students were strongly associated with larger need recommendations in relation to initial need determinations.
Marital status	3	At two schools, single students were strongly associated with larger need recommendations in relation to initial need determinations, while at the remaining school, married students were strongly associated with larger need recommendations in relation to initial need determinations.
Number of dependents	2	At both schools, students without dependents were strongly associated with larger need recommendations in relation to initial need determinations than were students with dependents.
Class	4	At two schools, upperclassmen were strongly associated with larger need recommendations in relation to initial need determinations, while at the other two schools, freshmen were strongly associated with larger need recommendations in relation to initial need determinations.
Amount of parents' adjusted gross income	8	At six schools, applicants with higher parents' adjusted gross incomes were strongly associated with larger recommendations in relation to initial need determinations. At one school, applicants with lower parents' adjusted gross incomes were strongly associated with larger recommendations in relation to initial need determinations. At the remaining school, applicants with the lowest family adjusted gross incomes were more strongly associated with smaller recommendations in relation to initial need determinations.

Supplemental Educational Opportunity Grant, College Work-Study, and National Direct Student Loan programs

The statistical analysis at seven educational institutions comparing characteristics of students who received aid awards with eligible students who did not receive awards under these programs indicated that the variables noted in the following chart influenced financial aid officers' decisions.

Variables	Number of institutions	Comments
Date of application	2	Early applicants were strongly associated with aid recipients at both institutions.
Age	1	Older students were strongly associated with aid recipients.
Marital status	2	Married or divorced students were strongly associated with aid recipients at one institution. The other institution favored single students.
Number of dependents	1	Students with dependents were strongly associated with aid recipients.
Independent student	2	Independent students at both institutions were strongly associated with aid recipients.
Year in school	1	Students in their second, third, or fourth years at this institution were strongly associated with aid recipients.
Curriculum	2	At one institution students enrolled in business administration and engineering were more likely to receive aid than students enrolled in health and physical education curriculums. At the other institution liberal arts students were more likely to receive aid than were students enrolled in the the humanities curriculum.
Prior aid	6	At all six institutions, students who received aid in prior years were more likely to receive aid than first-time applicants.

We discussed these results with financial aid officers. Many indicated they did not give conscious preference to any group of students and offered explanations on how these variables might have affected their need determinations.

Some indicated that certain variables directly influenced the extent of adjustments made to the initial need determinations for Guaranteed Student Loans and whether students would be awarded College Work-Study, National Direct Student Loan, and Supplemental Educational Opportunity

Grants funds for what they believed to be valid reasons. Many questioned the reasonableness of the expected parental contribution toward the educational costs of the student. As discussed previously, our analyses at these institutions disclosed that students with certain characteristics or other variables were (1) closely associated with the amount of need recommended by financial aid officers for a guaranteed loan or (2) associated more with aid recipients than with nonrecipients under the National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grants Programs.

The adjustments made by the financial aid officers, for the most part, represent their efforts to recognize the different financial situations of student applicants and their families. Each financial aid officer, however, applies his own strict or liberal interpretation to the necessity for adjusting the amount of student financial need.

Although some degree of flexibility is necessary, we believe that the explanations justifying the strong association of a variable with the amount of need at one school would be equally true at schools where we found no significant association. For example, our analysis at two schools showed that older student applicants were getting greater upward percent adjustments to their initial need determinations than younger students. At another school, younger student applicants were getting greater upward percent adjustments. At 13 other schools, there was no significant association between the amount of need and the age of the student applicants. Our analysis of students' State residences showed that at two schools, in-State students were getting greater upward adjustments to their initial need determinations than were out-of-State students. At another school, out-of-State students were getting greater upward adjustments. At nine other schools, there was no significant association between the amount of need and the State residence of the student applicants.

To insure equal treatment for all students at all schools, consideration should be given to developing guidelines and instructions to assist financial aid officers in determining student needs.

ACTIVITIES OF LENDING INSTITUTIONS

Under the Guaranteed Student Loan program, lending institutions review loan applications to insure that student borrowers meet Federal eligibility criteria for participation in the program. Lending institution officials advised us that they do not consider a student borrower's race, sex, academic standing, athletic ability, or alumni relationship in awarding guaranteed loans. Because lenders do not keep, and in some cases do not even prepare, application records for ineligible student borrowers, we could not substantiate this claim. However, it appears reasonable that financial aid officers at educational institutions would have been alerted to such practices by disappointed prospective student borrowers. Our discussions with financial aid officers did not identify any instances of lenders alleged to be employing such practices.

Lenders participate voluntarily in the Guaranteed Student Loan program. Federal program requirements specify, among other things, that to be eligible for a subsidized loan, a student must be (1) accepted for enrollment or be enrolled at least half time at an eligible institution, (2) in good standing, and (3) have a demonstrated need. State guaranty agencies and lending institutions have also established certain other eligibility requirements. Some of the more significant requirements at the 8 State guaranty agencies and 35 lending institutions contacted were:

--At 25 lenders, the borrower had to be a resident of the State and, in some cases, of a particular area within the State. Seventeen of the lenders were located in States where the guaranty agency had this requirement.

--At 27 lenders, the maximum annual loan amount and/or total student indebtedness limitations were less than the maximums permitted under the law. Twelve of the lenders were located in States where the guaranty agency had this requirement.

--At 17 lenders, the borrower and/or his parents must have had a customer relationship with the lender.

--At 6 lenders, loans were not awarded to freshmen. At three additional lenders, both freshmen and sophomore students were excluded, and another lender excluded first-semester freshman students.

--At 7 lenders, borrowers were required to be full-time students.

--At 3 lenders, borrowers had to be 26 years of age or under unless the borrower was a veteran, a graduate student, or a prior loan recipient.

--At 4 lenders, the loan note had to be cosigned by a responsible individual. Two other lenders required only student borrowers under 21 to have cosigners. In one case, the parent or guardian had to cosign. The other lender permitted any responsible person to cosign. One of the lenders was located in a State where the guaranty agency had this requirement.

A lender will sometimes waive one or more of its requirements depending upon its relationship with the educational institution or the individual circumstances of the student borrower. OE, which prefers that restrictions not be imposed, advised us that State agency and lender participation in the program is voluntary and that any restrictions on lenders establishing their own additional criteria would require statutory change. OE also advised us that statutory change to eliminate these restrictions would reduce lender participation in the program.

Although lenders acknowledged that prospective borrowers not meeting their criteria were rejected, the number of rejected applicants and/or the number of students not attending school as a result of these restrictions could not be determined. Most lenders do not maintain files of rejected applicants and even if such data were available, rejected applicants could have obtained financing elsewhere, even from other participating lenders.

For a student borrower to qualify for an interest-subsidized loan, he must demonstrate a financial need. The financial aid officer at the school is responsible for determining the amount of student need and furnishing this data to the lender. Lenders may exceed the schools' recommendation but must document the basis for the adjustment.

Our review showed that lenders generally award student borrowers the amount the educational institution determines to be the student's need but not exceeding a lesser amount requested by the student or the maximum loan limitation established by the law, the State guaranty agency, or lending institutions. We did note 9 instances in 150 case files tested in which 1 lender did not document his decision to exceed the educational institutions' student need recommendation.

CONCLUSIONS

The rules and regulations OE provides to educational and lending institutions for administering the federally sponsored student financial aid programs are consistent with the provisions of the authorizing legislation.

Generally, financial aid offices did not consider race, sex, athletic ability, academic record, and alumni relationship of student applicants in computing loan recommendations and awarding financial aid. However, some financial aid officers were apparently influenced by one or more variables, in addition to need, such as age, class in school, and place of residence.

Standardized instructions and guidelines should be provided to financial aid officers to insure that loan recommendations and aid awards are made only on the basis of individual student need.

While the restrictive policies of lending institutions in awarding guaranteed loans do not exclude students having certain characteristics, they may prevent or hinder some students from participating in the guaranteed loan program.

RECOMMENDATION TO THE SECRETARY, HEW

We recommend that the Secretary, HEW, direct OE to develop guidelines and instructions for financial aid officers that will preclude individual student characteristics or other variables from affecting the determination of loan recommendations and the award of student financial aid other than on the basis of individual need.

MATTER FOR CONSIDERATION
BY THE SPECIAL SUBCOMMITTEE

The Special Subcommittee may wish to evaluate the appropriateness of State guaranty agencies and lending institutions' using their own criteria in deciding who receives a Guaranteed Student Loan, especially those excluding students because of age or class in school.

CHAPTER 3

ALLOCATION OF NATIONAL DIRECT STUDENT LOAN, COLLEGE WORK-STUDY, AND SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT FUNDS TO EDUCATIONAL INSTITUTIONS

The process through which educational institutions are allocated funds under the College Work-Study, National Direct Student Loan, and Supplemental Educational Opportunity Grant programs does not insure an equitable distribution of appropriated funds. Some educational institutions submit applications which do not reflect accurate estimates of the student need of anticipated applicants. Regional panels convened by OE to review institutions' applications and recommend amounts to be allocated to the schools do not always identify and make appropriate adjustments to these applications. As a result, some educational institutions receive sufficient allocations while others do not.

A statistical analysis of recommendations made on institutional applications by regional review panels at seven HEW regional offices indicated that the amounts they recommended apparently were not influenced by the racial composition of institutions' student bodies or by the types of institutions submitting applications.

STATE ALLOCATION FORMULAS

The State allocation formula for the Supplemental Educational Opportunity Grants and National Direct Student Loan programs provides for funds to be allotted on the basis of the number of persons enrolled full time in institutions of higher education in each State as it compares to the total number of persons enrolled full time in institutions of higher education in all States. This formula is:

$$\frac{\text{State's full-time enrollment}}{\text{Nation's full-time enrollment}} \times \text{total amount appropriated} = \text{State's allotment}$$

The formula for allocating funds to States for the College Work-Study program considers the number of (1) persons enrolled on a full-time basis in institutions of higher education, (2) high school graduates in the State, and (3) children under 13 years of age living in families with an annual income of less than $3,000. This formula is:

$$\frac{\text{State's full-time students}}{\text{Nation's full-time students}} \times \text{1/3 total appropriation} +$$

$$\frac{\text{State's high school graduates}}{\text{Nation's high school graduates}} \times \text{1/3 total appropriation} +$$

$$\frac{\text{State's children under age 18 from families with annual income of less than \$3,000}}{\text{Nation's children under age 18 from families with annual income of less than \$3,000}} \times \text{1/3 total appropriation} = \text{State's allotment}$$

When the total approved requests (regional panel recommendations) of all eligible applicant institutions in a State exceed the amount of the State allotment for the National Direct Student Loan and College Work-Study programs, OE regulations provide that the allocation to each educational institution in the State bears the same ratio to the State's allotment as its approved request does to the total approved requests for all institutions in the State. The formula for this computation is:

$$\frac{\text{Institution's approval request}}{\text{State's total approved requests}} \times \text{State allotment} = \text{institution's allocation.}$$

When State allotments for Supplemental Educational Opportunity Grants are insufficient to honor all approved requests, funds are first allocated to institutions within a State for those students from families with adjusted gross incomes of less than $3,000 a year. Requests for students from families with adjusted gross incomes from $3,000 to $6,000 are accommodated next, and so on until all funds are exhausted.

PROCESSES FOR ALLOCATING FUNDS AND DETERMINING INSTITUTIONAL NEEDS

Each OE region has a review panel to evaluate the institutional applications for College Work-Study, Supplemental Educational Opportunity Grants, and National Direct Student Loan funds. The objective of the panel is to recommend funding levels that will meet the total student financial needs at each institution. We reviewed the activities of the regional review panels at seven HEW regional offices.

Each HEW regional office convenes a regional review panel to act as a peer group in reviewing educational institutions' applications for student aid funds. The panels usually consist of financial aid officers and OE representatives. The regional panels usually meet for 1 or 2 weeks. The number of applications reviewed and number of panel members for each region reviewed are summarized below.

Region	Panel members	Applications reviewed
I	22	278
II	24	352
IV	22	587
V	24	588
VI	22	320
IX	19	400
X	18	119

Because of the volume of applications submitted to several HEW regional offices and the limited time available, it would seem physically impossible to review each application in detail. OE told us that some panels have developed methods of identifying applications which may not reflect accurate estimates of actual student need, although it admitted that these methods have not always been successful.

Generally the OE Institutional Application to Participate in Federal Student Financial Aid Programs requires the applying institution to furnish total enrollment data as well as data on the number of students eligible to receive financial assistance under the three programs and on those who will apply for aid. The six-page application also

requires the institutions to estimate the amounts necessary to meet the needs of eligible students who will apply.

Each educational institution is required to annually submit to OE a fiscal operations report which requires, among other things, information on the race and sex of students who were awarded College Work-Study, Supplemental Educational Opportunity Grant, and National Direct Student Loan funds. This report also requires data on the number of students who were not aided because of insufficient funds. The fiscal operations report could provide regional review panel members with historical data on the student aid activities of educational institutions. These reports, however, were used in the review process by only three of the seven regional panels we reviewed.

Impact of allocation process on institution's total student need

Only 8 of 32 educational institutions we visited had applications in their files from eligible students that could not be approved because of a lack of sufficient aid funds. Twenty-four institutions did not have rejected eligible applications despite receiving only between 27 and 75 percent of amounts that had been requested--amounts which were supposed to reflect the actual need of students who would apply for aid.

Some institutions did not have any documented unmet need (applications of rejected eligible students) because of their procedures in awarding student financial aid. These institutions established cutoff dates for receiving applications and were able to fund all eligible applicants who applied before that date. Subsequent aid awards were made on a first-come, first-served basis to eligible applicants until funds were exhausted, after which the financial aid officers did not accept any additional applications.

Other financial aid officers told us that on the basis of experience they were able to predict the percentage of their request they would receive after the regional review panels had acted and State allocation formulas were applied. Using this knowledge financial aid officers inflated their request for funds to the point where the percentage of the request received could satisfy the entire anticipated

student financial assistance needs at the institution. These financial aid officers stated that this practice was commonly known among the financial aid community and that it was necessary to inflate their requests to compete with other institutions.

Another financial aid officer did not, as required, include other sources of aid funds, such as State scholarships and private scholarships, in his application. Even though this institution received only 36 percent of amounts it requested, sufficient funds were available from all sources to meet the needs of all eligible applicants.

Some financial aid officers told us that they do not publish the availability of aid other than in the college catalog. As a result some eligible students are not aware of student aid availability and therefore do not apply. We were told that the primary reason for not publicizing aid availability is the lack of sufficient funds to meet the needs of all eligible students if they applied. Also, they do not have enough staff to process the number of applications that would be received if the aid programs were publicized.

An indication of the lack of accuracy in educational institutions' applications to OE is demonstrated by statistics compiled at the 32 institutions at the time of our review. We compared amounts requested by these educational institutions with the total of the amount they actually received and their unmet need, both documented and estimated by the financial aid officer. Only one institution's request was less than the total of the amount received and its unmet needs. Two of the comparisons were equal because the financial aid officers contended that their request was accurate and that the difference between the amount received and the amount requested reflected the unmet need at their institution. The chart on the following page shows the comparison for each of the 32 institutions.

Comparison of Institutional Requests to Amounts Received and Unmet Need

Institution	Total request	Amount received	Unmet need	Total need	Overestimate or underestimate(-) of total need to total request
	(thousands)				
1	5,090	1,681	625	2,306	2,784
2	2,630	1,635	839	2,474	156
3	1,378	646	198	844	534
4	597	374	-	374	223
5	698	402	170	572	126
6	7,470	2,659	4,811	7,470	-
7	837	172	200	372	465
8	8,366	3,239	3,800	7,039	1,327
9	546	317	533	850	-304
10	2,785	1,618	1,167	2,785	-
11	1,782	1,070	-	1,070	712
12	1,296	962	-	962	334
13	3,328	1,434	695	2,129	1,199
14	1,817	810	-	810	1,007
15	8,142	2,988	-	2,988	5,154
16	2,835	1,339	-	1,339	1,496
17	6,106	1,819	-	1,819	4,287
18	1,827	733	-	733	1,094
19	2,660	730	627	1,357	1,303
20	1,863	826	450	1,276	587
21	5,603	2,161	350	2,511	3,092
22	5,168	1,864	-	1,864	3,304
23	288	127	-	127	161
24	1,334	548	-	548	786
25	20,033	5,317	-	5,317	14,716
26	1,689	623	-	623	1,066
27	569	203	-	203	366
28	5,408	1,980	-	1,980	3,428
29	2,900	1,525	158	1,683	1,217
30	6,396	1,219	150	1,369	5,027
31	3,545	1,241	585	1,826	1,719
32	3,735	1,484	94	1,578	2,157

We brought these practices to the attention of OE officials who told us they were aware that some financial

aid officers were inflating their requests but did not believe it to be a common practice.

To determine the impact of certain educational institutions' inflating their requests, we contacted 175 additional institutions throughout the country in September through December 1973. We asked the financial aid officer at each of these institutions if he had any unmet need at that time and to what extent the unmet need consisted of (1) rejected applications of eligible students on hand and (2) an estimate of unmet need at the institution.

Of the 175 financial aid officers contacted, 87 told us that they had actual rejected applications from eligible students. The total amount of student need for these rejected applications was about $13.4 million. Thirty-eight financial aid officers said that their institutions had unmet needs but that they did not have any rejected applications. The total estimated unmet needs at these 38 institutions was $4 million. Fifty financial aid officers said their institutions had no unmet needs. Seven financial aid officers readily admitted that they inflated their requests.

Several financial aid officers at educational institutions we visited, who apparently based their applications on those students eligible for financial assistance who would actually apply, advised us that they were unaware of other institutions' inflating their applications. They also expressed concern over the possibility of regional review panels' being unable to detect those institutions inflating their request and that under such circumstances their applications could not be considered on an equal basis.

Suggested improvements for the allocation process

Some financial aid officers, many of whom have participated on regional review panels, have expressed their displeasure with the allocation process in general, and the regional review panel in particular, in correspondence with OE regional and headquarters officials. They have pointed out that some educational institutions are overly optimistic and less than totally accurate in reporting the various data required on the application. The application itself has been criticized as being too complicated and allowing a high degree of data manipulation.

Financial aid officers have made several suggestions for improving the allocation process, including (1) simplifying the application form to require past performance data and growth factors, (2) establishing standard budget amounts to be used in calculating student needs, (3) eliminating regional panels and establishing State review panels which would have more knowledge of each educational institution's financial assistance operation, and (4) allocating funds on a per capita enrollment basis with reserves for institutions having concentrations of low-income students.

Appropriate State review panels might make more equitable allocation of funds to institutions because they would have more knowledge of the enrollment; student body income levels; trends in enrollment; relative cost of attending; and availability of other resources of student aid, such as State scholarships, for each of a lesser number of educational institutions.

OE told us that it has considered many alternatives for allocating funds but has been unable to reach any conclusions that would lead it to change its present procedure.

CONCLUSIONS

The present process for allocating College Work-Study, Supplemental Educational Opportunity Grant, and National Direct Student Loan funds to educational institutions is apparently not equitable. Some institutions receive all or more than the total funds they need to meet the needs of their students while others receive substantially less than their actual need. Some financial aid officers, for various reasons, are not submitting applications which reflect the actual need situation at their institution; that is, they are not basing their requests on a reasonably accurate estimate of the number of eligible students who are expected to apply for student assistance.

Regional review panels do not have enough time or data on which to make an appropriate review of institutional applications.

The procedures used by financial aid officers are not being used to defraud the Government but are being used in

an effort to assist most if not all students who are eligible and desire to receive assistance at their respective institutions. However, those educational institutions which inflate their requests for aid or base their requests on other than their actual operating capacity have an advantage over those educational institutions which submit realistic applications. As a result, students at these latter institutions may have greater difficulty in receiving financial assistance under the three educational institution-based programs.

RECOMMENDATION TO THE SECRETARY, HEW

We recommend that the Secretary, HEW, direct OE to study alternatives for improving the process through which educational institutions receive allocations of funds under the College Work-Study, National Direct Student Loan, and Supplemental Educational Opportunity Grant programs. Alternatives to be studied should include:

1. Requiring educational institution requests to be based on the students' actual need; that is, the amount of Federal aid awarded in the previous year, the amount of documented unmet need (actual rejected applications from eligible students) in the previous year, plus an anticipated rate of growth in the number of students eligible and applying for student financial assistance.

2. Eliminating the functions of the regional review panels and requiring educational institutions to submit their applications to an appropriate State education agency for review and allocation of appropriated funds. OE would periodically monitor the State agency practices to insure that funds were being allocated equitably to all State educational institutions.

CHAPTER 4

SCOPE

We made our review at OE headquarters in Washington, D.C.; at 7 HEW regional offices; and at 32 educational and 35 lending institutions in 15 States. The educational institutions visited were public and private 4-year institutions, 2-year community colleges, and vocational/technical institutions. Among the lending institutions visited were national banks, State banks, mutual savings banks, and savings and loan banks.

We reviewed student aid, loan and institutional application files, and other documents. The records reviewed under the College Work-Study, National Direct Student Loan, and Supplemental Educational Opportunity Grants programs at educational institutions related to financial aid awards made for the 1973-74 academic year. Those reviewed under the Guaranteed Student Loan programs related to student need determinations and awards made since March 1973. We also interviewed financial aid officers and other educational institution officials, loan officers and other lending institution officials, State guaranty agency officials, and OE regional and headquarters personnel.

College Work-Study, National Direct Student Loan, and Supplemental Educational Opportunity Grants funds allotted to the 32 educational institutions for academic year 1973-74 totaled $43.7 million. The educational institutions have processed about 22,000 applications for guaranteed student loans since March 1973; we examined about 2,700, or 12 percent, of these.

The 35 lending institutions we visited account for about 14 percent of the cumulative outstanding loan volume since inception of the program. Since March 1973 these lenders processed and awarded about 141,000 loans, subject to the needs analysis requirement, totaling about $89 million.

We used statistical analysis techniques in our review, as described below.

SAMPLE SELECTION--EDUCATIONAL INSTITUTIONS AND STUDENT APPLICANTS

Educational institutions were selected on a judgmental basis, giving consideration to the following:

--Geographic location.

--Type of school--for example, 2-year public, 4-year private, vocational-technical.

--Number of Federal student aid programs in which the school participates and the Federal dollars involved in each.

Student applicants were selected using random-sampling techniques. Two random samples of approved and rejected applicants were selected from our analysis of the school-based aid programs--the Supplemental Educational Opportunity Grants, National Direct Student Loan, and College Work-Study programs. A single random sample of aid applicants was selected for our analysis related to the Guaranteed Student Loan program.

PURPOSE OF ANALYSIS

The purpose of our analysis was to identify student characteristics which may have influenced financial aid officers in determining:

--Who is to be awarded Federal aid and who is not.

--How much aid each recipient will receive in relation to his determined need.

SCOPE OF ANALYSIS

Our analysis centered on identifying student characteristics which differ significantly between:

--Aid recipients and eligible applicants who did not receive aid. This analysis was used for our work on the Supplemental Educational Opportunity Grants, National Direct Student Loan, and College Work-Study programs.

--Applicants for whom financial aid officers recommend larger loans in relation to their determined need and applicants for whom financial aid officers recommend smaller loans in relation to their determined need. This analysis was used for our work related to the Guaranteed Student Loan program.

STATISTICAL TESTS USED

We used discriminate analysis and the chi-square test of homogeneity in our comparison of accepted and rejected applicants under the Supplemental Educational Opportunity Grants, National Direct Student Loan, and College Work-Study programs. We also used the chi-square test of independence in our analysis of the Guaranteed Student Loan program. For each test we used a computerized statistical program.

Chi-square test of homogeneity and discriminate analysis

We used the chi-square test of homogeneity when we compared characteristics of aid applicants in two independent random samples--aid recipients and rejected eligible applicants. The test was to determine whether the two independent random samples could have come from the same population considering the characteristics we tested.

Using the chi-square statistics, we determined, within confidence limits, whether the two samples came from the same population or from populations which are significantly different statistically with respect to the characteristics tested. We used a probability level of 0.95 or greater to define statistical significance.

When comparing the two independent random samples we also used a second statistical test called discriminate analysis. The purpose of our discriminate analysis was to identify applicant characteristics which differentiate applicants awarded aid from eligible applicants who were not awarded aid. The analysis identified these discriminating characteristics and an order of magnitude for the discriminating power of each characteristic. Characteristics which were statistically significant at the 0.95 probability level were considered to differentiate aid recipients from eligible applicants who did not receive aid.

When interpreting the results of our analysis related to aid recipients and eligible rejected applicants, we generally considered a characteristic to be an influencing factor in student aid decisionmaking when the characteristic was identified as statistically significant by both tests. For one characteristic--whether an applicant had previously received aid--we used only the chi-square test.

Chi-square test of independence

We used the chi-square test of independence for our analysis of the Guaranteed Student Loan program to establish whether a dependency relationship exists between the characteristics we tested and how much aid an education institution's financial aid officer recommends the bank award in relation to the applicant's determined need.

Using the chi-square statistic, we identified applicant characteristics which significantly differentiate, statistically, those applicants recommended for larger loans in relation to their determined need from those applicants recommended for smaller loans in relation to their determined need. We used a probability level of 0.95 or greater to define statistical significance.

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CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
COMMITTEE ON EDUCATION AND LABOR
SPECIAL SUBCOMMITTEE ON EDUCATION
320 CANNON HOUSE OFFICE BUILDING
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May 21, 1973

Honorable Elmer Staats
Comptroller General of the United States
Washington, D. C.

Dear Mr. Staats:

This letter is to confirm my discussion today with investigators from the General Accounting Office, and to formalize the request I have made to them that an in-depth study be made of the operation of student assistance programs carried on under the Higher Education Act and related and predecessor enactments.

The programs I have in mind include the Direct Student Loan program (formerly known as National Defense Student Loan), the Guaranteed Loan program, under its several different names, the Educational Opportunity Grant Program (now known as Supplemental Educational Opportunity Grants), and the College Work-Study program. This fall, if the law is carried out, the Basic Opportunity Grant program will also be in place, and when sufficient time has elapsed, I would like to have it looked at as well.

First, of course, we would want you to look into any irregularities or allegations of irregularity in the use of student assistance funds, of any nature whatsoever.

But further than that, there are three questions of judgment to which I would want you to look.

First, has the Office of Education, in drafting its rules carried out the intent of the Congress, as documented by the Committee reports and floor debate, or has it added goals and objectives to those provided in the law?

Second, has the Office of Education, in distributing money among the institutions, been guided by other criteria than those set forth in the statute?

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Third, have the institutions utilized the money made available to them solely to meet the demonstrated financial needs of individual students, or have they used other criteria in making loans, grants and work-study jobs available?

Specifically, I am wondering if student financial assistance money has been made available to members of any particular racial or ethnic groups, on the basis of their racial or ethnic identification rather than on the basis of their individual need?

I want to know if there is a sex bias in any of the programs.

And I am interested in knowing if institutions have utilized their Federal student assistance funds to seek to recruit students who showed particular athletic prowess, who were the children or relatives of alumni, or on the basis of their previous academic record.

In short, has any criterion other than demonstrated individual financial need been utilized in the distribution of student assistance?

There have been studies made on this subject, but they have all fallen afoul of one methodological error that I hope you could avoid in conducting your study. In almost every case, examinations of the operation of student aid programs have examined the results of the programs, and formed their conclusions wholly in terms of what percentage of women, members of ethnic and racial minorities, etc., were actually receiving aid. That is not my question, though no doubt it will form a part of the answer.

I want to know what criteria have been used by the agencies and the institutions in selecting the recipients of assistance. I know that is a more difficult question than simply asking to look at the results. But it is one I think the Congress has a right to ask.

I will want you to work very closely with the staff of the Special Subcommittee on Education in carrying out this study, and I would appreciate being kept informed of your progress as the study is mounted, and as the results begin to take shape.

Let me assure you that this rather large order is one which will--or at least can--have significant legislative results. The existing student assistance programs come to a legislative end on June 30, 1975, and it is my hope that the GAO study can help us make some basic decisions regarding the shape of student assistance programs thereafter.

Very truly yours,

JAMES G. O'HARA
Chairman

[illegible]/ht

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SPECIAL SUBCOMMITTEE ON EDUCATION

320 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

July 12, 1973

Honorable Elmer Staats
Comptroller General of the United States
Washington, D. C.

Dear Mr. Staats:

The Subcommittee staff has told me of the plans you have developed for your general examination of student assistance programs, and I believe, in general, they are well designed to meet the objectives I set when I requested the study.

There is, however, one area in which I would appreciate an in-depth look by your team on at least as high a priority basis as you apply to the others. I am referring to the Guaranteed Loan Program.

There are at least two aspects of this program that seem to me to come within the focus that I set for the overall study. First, because of changes made in the 1972 Amendments, there is a higher degree of institutional flexibility than was formerly the case, thus permitting, to a limited extent, the kind of selectivity that I asked you to examine with regard to the other programs.

In addition, there are reports which may or may not be validdof relationships between particular educational institutions especially proprietary institutions, and selected lenders. These relationships would be, in my judgement, worth our while to look at.

Very truly yours,

JAMES G. O'HARA
Chairman

JGO'H/ht

cc: Mr. Dellenback

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